

# Corporatism: Rebuilding the Framework of China's Welfare Regime

*Zheng Bingwen\**

The welfare state systems that the developed countries in the West established beginning roughly in the 1920s and continuing until after World War II were based on the cooperation among three parties: the employees' organization, the employers' organization and the state. Corporatism here refers to the welfare systems of those countries, the basic features of which may be defined as follows:

(1) The main content of the corporatist welfare systems comprises the three partners, serving as a buffer to lessen class contradictions and social conflicts, to control the interest groups and to maintain social stability, thus bringing about a necessary socio-historic stage.

(2) Among the three parties, the integration of employees into a public functionary organization with a relatively independent legal status takes as its goal the signing of social contracts in the social political development.

(3) Given this institutional arrangement capable of allowing both economic development and social justice, the employees' organization must be a legal person recognized by the state organ of public power, an organization with a lawful representativeness and monopolizing nature within the framework of the law.

Among various scholars in the West, the term "corporatism" has come to define and analyze the system of the contemporary Western welfare state (correspondingly there are terms such as neo-conservatism or neo-liberalism, etc.), and they even deem the welfare state to be a manifestation of corporatism (Keane, 1984).

This paper focuses on the relationship between the welfare regime and the economic system, pointing out that the nature of a welfare regime determines an economic system's choice of mode. The author then argues that China's newly issued Trade Union Law Amendment, which will go down in the annals of new China's legal system as the first legislation on the role and status of the trade unions in "collective negotiation," lays a legal foundation for the structure of a "micro-corporatist" social security system in China.

## I. The Welfare Regime and the Economic System

### 1. The nature of a welfare regime determines the choice of the mode of an economic system

The choice and formulation of a social security system essentially means the choice and formulation of a corresponding economic system and a social security system in a sense embodies the nature of a social economic system. This is because, firstly, from the angle of the volume of public expenditure and the supply of public goods, the difference in the social security system and social welfare regime is an important indication of the economic system of a country: it not only involves the separate social security systems such as the arrangements for the old, the unemployed, the handicapped and medical care, but also those systems that determine the mode of an economic system: the systems of investment and production vital to the personal interests of the mem-

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\*Zheng Bingwen, deputy director and professor, Institute of European Studies, Chinese Academy of Social Sciences, E-mail: zhengbw@public.bta.net.cn.

bers of society such as education, housing, and public health, issues related to the operation of the national economy such as banking (the operation of pension funds), banks (the financial and banking system), public finance (the social insurance budget) and the labor market as well as the degree of the commodification of the social welfare services and the redistribution of the national income. Considering subsidies in kind and cash in social welfare, for example, subsidies in kind in the form of distributing residential housing free of charge as part of the social welfare system during China's planned economy phase was in fact an indication of a component of a highly centralized economic system. Another example: prior to China's implementation of the reform and opening policy when "jobs were assigned 100 percent by the state," there was no free movement of the labor force and there was no unemployment. That situation was perfectly in keeping with the highly centralized economic system.

Secondly, if we look at the relationship between the welfare regime and the economic system from the angle of public choice, we may say that making a decision on public goods is a process of public choice. In this case, then, the choice of a welfare regime refers somewhat to public choice. We may follow this logic and conclude that the amount of the corporatist factor in the welfare regime of a country may directly or indirectly affect the process of public choice. The tripartite cooperation, i.e. the consensus on the different contents of negotiation in the regime of corporatism in the developed countries is a perfect manifestation of this. That is why, in a sense, corporatism or the welfare state, in the eyes of some scholars, has been a response or an institutional arrangement in the face of "market failures" and "public failures" (Crouch and Dore, 1990; Barr, 1998).

Thirdly, like other economic functions of the government, government intervention in the provision of social security and social welfare also has the "boundary" problem, and in this sense, the social welfare and social security systems of a country may be

deemed the replica of its economic system. The width of the boundary between government intervention and government regulation in other fields of economic management approaches a reflection of the width of the boundary of social security. The point is that in the half century since World War II, the retrenchment and expansion of social welfare services in the Western countries, time and again, show that government responsibilities are often "substituted" automatically by social obligations (such as private charity institutions).

## **2. Any regime today contains certain corporatist factors**

The corporatist factor, or the degree of cooperation among the tripartite partnerships, is a question of size, not of existence, in the economic and welfare systems of any developed country today. Its existence in the social security system and social welfare system is a question of quantity, not one of the need. Since their emergence on the historical arena toward the end of the 19th century, particularly since the beginning of the 20th century, they have co-existed like the two sides of a coin with the social security system of almost all of the developed nations. This historical phenomenon is an insurmountable historical stage in the course of the development of modern civilized countries, an indispensable element in today's social security and social welfare systems.

First, throughout the industrialized world today, a social security system without the element of corporatism is almost non-existent. The countries with least corporatist factors or not typical corporatist welfare states are the United States and its like. And even in the United States, collective negotiation at the micro level, i.e. the level of the enterprise, is institutional in nature. Of the 14 million employees of the state and local governments, seven million, or 50 percent, have the right of collective negotiation and 13 percent of these workers are trade unionists<sup>1</sup>. In Table 1 we see that a welfare system entirely void of corporatist fac-

<sup>1</sup> Quoted from 2000 *Human Rights Record of the United States* released by Xinhua News Agency, 2001.

**Table 1. Levels of Collective Negotiations in 17 OECD Countries, 1980-1994**

Country	Levels of Collective negotiation	The main level of collective negotiation	Country	Levels of collective negotiation	The main level of collective negotiation
Australia	1,2,3	2→3,1	Norway	1,2	2→1
Austra	2,3	2	New Zealand	1,2,3	2→3
Belgium	1,2,3	2	Portugal	1,2,3	2→2/3
Canada	1,2	1	Spain	1,2,3	2/3→2
Finland	1,2,3	3→2/1	Sweden	1,2,3	3→2
France	1,2,3	2	Switzerland	1,2	2
Germany	1,2	2	UK	1,2	2→1
Japan	1,2	1	USA	1,2	1
Netherlands	1,2,3	2			

**Source:** OECD, *Perspectives de l'emploi*, 1994.

**Notes:** 1=enterprise/factory; 2=department; 3=central, national.

→: direction of changes of representatives.

tors is almost non-existent and impractical.

Second, the introduction of the corporatist regime has been an insurmountable historical stage in the development of the modern civilized society. The vigorous development of the workers' movement in Europe more than a century ago, as a direct result of Marx's analyses and writings, served as a catalyst to the birth of a social security system in modern sense. Even the US "Social Security Act" that came into force some half a century later was the product of the fight waged by the American workers<sup>2</sup>. We may even go so far as to say that the working class played and is still playing a leading role in the big machinery industry society or post-industrialized society and has helped promote the modern welfare state. As many Western scholars point out, without the early workers' movement, there would have been no social democratic parties, and the workers' movement, trade unions and the succeeding political parties have furnished the necessary conditions for

the emergence and survival of corporatism (Lash and Urry, 1987). Among those developed countries on the same level of economic development, the amount of the corporatist factor undoubtedly is closely related to the strength of the social democratic thinking and the strength of trade unions. Destruction of this objectivity, therefore, obviously amounts to the destruction of the structure of the capitalist system and modern capitalist civilization.

Third, the future of the evolution of the social economic system and the social welfare system essentially is not a question of where it will go, but where it has come from. The modern social security system was brought about by the industrial revolution and workers' movement in the modern history of mankind, and the corporatist factor cannot vanish overnight. Institutional evolution can only go along this road, although the conditions of countries may differ<sup>3</sup>.

### 3. The mode of a welfare regime embodies the choice of values

There are indeed quite a number of objective indices when we appraise the merits and demerits of a corporatist regime or the quantity of the corporatist factor. However at the same time that embodies the appraiser's subjective inclinations and his strong values. In the heated debates between the middle-left that strongly defends corporatism and the role of trade unions and the neo-liberalism that vehemently attacks those things in the developed countries, they all base themselves upon statistics to prove their own point of view and to show their role in the competitiveness of enterprises and in economic development. But actually, the appraisal and choice of a social security mode involves another important issue, i.e. the question of values. In

<sup>2</sup> Zinn, Howard (1997): *A People's History of the United States*. Harper Perennial. This information once more shows that the "New Deal" and "Social Security Act" were the outcome and product of the workers' movement.

<sup>3</sup> For example, compared with European, especially Nordic European countries, the United States has much less of a corporatist factor as is shown on the three major features of the social welfare system; it has been growing relatively slowly since World War II; the trade unions play a relatively insignificant role in collective negotiations at the national level; and there are more social aids than social insurance, etc. This probably has something to do with the unique national situation of the United States such as the scattered trade unions, more residents living in suburbs, a greater percentage of managerial personnel, etc.

the two principal modes of social security, neo-liberalism tends to emphasize the role of market and individuals whereas corporatism leans toward the role of government guidance and collectivism. Between these two extremes are “mixtures” taken and reorganized by many countries to achieve balance and choice for the realization of efficiency and justice. This kind of integration and choice embodies the leading values, concrete state, and the balance of interests of different social strata in a country.

From the point of view of values, the leading values of a country include the sedimentation of its cultural and historical heritage, its concrete ideological choice, religious beliefs and the goal of values. Therefore on this plane, the choice and creation of a social security system is not merely a technical issue, an issue of “good” or “bad”, but a question of choice.

In viewing the concrete situation and features of a country, primarily in designing a social security framework, it is necessary to have forethought and a concept of that country’s past as well as its present. By past, it means “path dependence,” i.e. a question of “where from.” For example, it is necessary to note at the same time the “continuation” of the historical tradition on the issue of the corporatist road and the participation by trade unions and other social organizations; by present, it means the changes of economic strength and social strata.

To outline and design a mode of social security calls for noting the features of the present state of the social strata, primarily the developments of the various social strata and interest groups, proceeding from the general situation of social development and stability to regulate the social mechanisms through the “most exquisite” institutional mechanisms. Since social security is a means of redistribution of the national income, a “public goods” to be consumed by the entire society, its “applicability” determines to a great degree the “stability” of society. Not to consider “applicability” and

“stability” means no simultaneous attention to the issue of “justice and efficiency,” because attention to the minimization of costs of the institution,” a simple principle of institutional choice may lead to a certain “idealization.”<sup>4</sup> Historical experience, however, shows that a conflict of interests between interest groups, social strata, districts and even cities and countryside may lead to “social conflicts” which may become the maximum political costs and institutional costs, reflecting “more haste, less speed” or “getting half the result with twice the effort.” Potential social instability will be the greatest potential system cost.

## **II. Feasibility of a Corporatist Welfare Regime in China and the New Trade Union Law**

### **1. How the issue was raised**

Some years ago a number of scholars in the West used the idea of “local corporatism” to analyze the changes in the social life and the budding of the concept of “citizen society” in China (Oi, 1992). Other Western scholars mentioned in passing the term “corporatism” in their discussion of Chinese local social organizations and “citizen society” in China (White, 1996). Those Western scholars proceeding from the angle of the citizen society and the changes in the regime came to believe that the corporatist theory of “nationalization” provided a more accurate mode for the changes that took place in China (Unger and Chan, 2001). Chinese scholars divide the Western scholars in Chinese affairs into three generations. After carefully studying the focus of the researches of each generation of the Western scholars, they point out that in view of their stands on structure, the Western scholars concentrated on two major issues, namely the relationship between the economic organizations and the state and the organizational forms of the social interest groups (Zhang, 1998).

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<sup>4</sup> Some Chinese scholars favor individual negotiations instead of collective negotiation. They say there is no cultural tradition that advocates collective negotiation and that collective negotiation may involve great institutional costs (see *Exploitation of China’s Labor Power Resources*, 2001, 4, pp. 9-10).

In recent years, Western scholars have gradually taken corporatism as a means in their study of the designing of the regimes of countries in transition. For example, when discussing the issue of social stability of the former East European socialist countries, there were views in the public opinion of the West that “multi-party democracy is not suitable for these countries”. Such countries must have stable structures to mediate various interests, to channel and trap social conflicts. Therefore, liberal corporatism appears to be the best way of mediating extra-party interests, because it involves a higher degree of stability than pluralism.<sup>5</sup> Chinese scholars in reviewing the framework of the Chinese social security system have also mentioned the concept of corporatism. They think that “for China today, in view of the socialist values, welfare philosophy and ideal, and in view of history, reality, and the future, and in the interest of the individual, the state and the well-being of the entire society, the corporatist regime of social welfare is worth seeking.”<sup>6</sup>

As we mentioned previously, so long as European corporatist welfare is an insurmountable historical stage in the process of human civilization (although it has all sorts of problems), we should pay attention to and study it. So long as the choice of certain corporatist social security systems may affect the choice of a corresponding economic system in the future, we should have a reasonable expectation on the issue of designing a social security system to make it fully represent our pursuit of specific values. We should proceed from the actual national situation, take advantage of a “late-comer” and our unique political advantage so as to avoid those similar problems that have already confronted other welfare states. Since a welfare regime and an economic system are so closely linked and co-exist, any neglect of the transition of the welfare system in the course of the transition of the economic system may lead to a total destruction of the great cause of China’s Reform and Opening.

A number of pressing technical problems that have

surfaced in the course of establishing a social security system in China in a bit more than the past decade have attracted main efforts and attention of Chinese academic circles and policy research departments. They include nominal transfers between private accounts, recessive debts, deficits in the budget of social security, etc. However, in view of the choice of values, efficiency and justice and from the angle of maintaining political and social stability, we should undoubtedly reconsider the institutional design and target of our social security system and social welfare system. As we mentioned before, it is not only of great realistic importance but also of historical significance to examine and assess the framework of our social security and social welfare all over again. Realistically, it has a direct effect on our overall social stability. Historically, it will ultimately affect the economic structure which is vital to the life-line of our country. Institutional economics tells us that route dependence may cause the “fixing” of social ideology, thus resulting in a vicious cycle. It is precisely out of this consideration that we say it is time to think about our welfare “regime.”

Judging by the present state of China’s social welfare and social security, the perceived “institutional” problem should be that of making workers’ participation in collective negotiations in enterprises a rule. Collective negotiations in enterprises are the most fundamental micro prerequisite and the primary form that makes possible tripartite cooperation in the modern welfare system. In fact, the “Resolution on Revising the Trade Union Law of the People’s Republic of China,” promulgated in October 2001, has provided a legal solution to the provision for collective negotiation (in enterprises).

## 2. The experiment with tripartite partnership in Chinese enterprises

In the history of social security system, the tripartite partnership began at the micro level with an enterprise

<sup>5</sup> Peter Schwarz: Chirac’s European vision unleashes controversy in France. [www.wsws.org/articles/2000/jul2000/chir-j11\\_prn.shtml](http://www.wsws.org/articles/2000/jul2000/chir-j11_prn.shtml).

<sup>6</sup> Chang Zonghu (2001): Academic Review: A Useful Probe of Restructuring China’s Social Security System — An Overview of the National Symposium on Social Welfare Theories and Policies, printed in *Chinese Social Sciences*, 3rd issue, p. 127.

and gradually spread to an entire trade and even to the national level (and collective negotiations are found at the multinational level, or rather at the EU level) and this tripartite partnership in enterprises is the most fundamental content of a modern welfare regime. We may say that in the early days when China was shifting from a centrally planned economy to a market economy, we had already begun experiments on collective negotiation in enterprises, only that experiment was done first in foreign-funded enterprises as a means of attracting foreign investment.

The Ministry of Labor and Social Security and the Ministry of Foreign Trade and Economic Cooperation jointly promulgated on August 11, 1994 the “Provisions for Labor Management in Foreign-funded Enterprises” which is the first Chinese official document granting trade unions in foreign-funded enterprises the right to sign collective contracts through negotiation. Article 8 of the document stipulates: “The trade union (workers’ representatives shall be elected if there is no trade union) shall represent the workers in signing collective contracts with management through negotiation on labor remuneration, working hours and holidays, labor safety and health, insurance and welfare.” The Chinese Ministry of Labor and Social Security in 1997 circulated a document entitled “Some Points Regarding Collective Negotiations on Wages in Foreign-funded Enterprises,” which stipulates that the local governments and departments across the country should develop this concept in the light of the actual local conditions. Following this, the provinces, autonomous regions and municipalities directly under the State Council worked out local regulations and decrees in the light of their specific conditions. For example, Hebei Province in its Rules on the Management of Foreign-funded Enterprises allows the wage level of the workers to be fixed by enterprises through collective negotiation in accordance with the wage guideline announced by the local governments or local labor administrative departments and that the minimum wage of the workers within the legal work-

ing hours shall not be lower than the local minimum wage standard.<sup>7</sup>

Besides foreign-funded enterprises, Chinese enterprises under the urging of local governments have made much progress in this respect in recent years. It is learned that a collective contract system based on negotiations on equal footing has been introduced in more than 400,000 Chinese enterprises that involve 76 million workers. Virtually all state-owned, collective and foreign-funded enterprises in cities and towns have adopted labor contracts and over 95 percent of the workers have signed labor contracts with the management. Over 60 percent of the employees of private enterprises and individual owners have signed labor contracts with their employers. Nearly 30 million workers in township enterprises have signed labor contracts. In the past few years, 13 provinces, autonomous regions and municipalities directly under the State Council have promulgated regulations and decrees regarding collective contracts and 28 provinces, autonomous regions and municipalities directly under the State Council have continued the task of encouraging the signing of collective regional and trade contracts.<sup>8</sup> Although China has virtually instituted a system for the coordination of labor relations, maintained a stable labor relationship and accumulated valuable experience, we must admit that it does not yet sufficiently appreciate the significance and importance of collective negotiations on the plane of the social security system and social welfare regime, which was treated merely as an item of “protecting workers’ rights” in the reform of enterprise insurance and management.

### **3. The new trade union law is the first pillar of the framework of a modern welfare regime**

After many years of deliberation and discussion, the Standing Committee of the Ninth National People’s Congress passed the “Resolution on the Revision of the Trade Union Law of the People’s Republic of China” at its 24th session, thereby making major

<sup>7</sup> [http://china-window.com/Hebei\\_w/gywm/indexc.html](http://china-window.com/Hebei_w/gywm/indexc.html).

<sup>8</sup> Quoted from the Ministry of Labor and Social Security (2002): *Special Issue of Laws and Policies*, 1st issue of 2002, No. 157.

amendments to the 1992 Trade Union Law (for convenience, this Resolution is referred to here as “the New Trade Union Law”).

From an objective point of view, the promulgation of the new Trade Union Law has driven into the ground the first foundation pile of the legal framework for the institution of a modern social security system and social welfare regime.

Public opinion, more or less in a consensus, summed up the New Trade Union Law in its content regarding “the protection of workers’ rights”. The promulgation of the new Trade Union Law undoubtedly is very timely and will play an important positive role in protecting the legitimate rights and interests of workers in enterprises at a time when workers’ rights and interests are time and again being hurt seriously and sometimes shockingly in some foreign-funded enterprises, private enterprises and township enterprises. However, if we view it in greater depth, i.e. in view of the building of a new framework of a social welfare regime, the new Trade Union Law definitely will play a much greater role.

First, the new Trade Union Law stipulates that “labor relations shall be coordinated through negotiations on an equal footing and a collective contract system” and that “a tripartite negotiation system be instituted for handling labor relations” (see Articles 6, 20 and 34).<sup>9</sup> By collective negotiation, one refers to agreements to be reached between representatives of the employer and representatives of the employees by which labor remuneration and working conditions will be resolved. Collective negotiation has been deemed a great “social invention” for the normalization of resolving labor-management conflicts, a specific right every laborer is entitled to or should be entitled to in a modern democratic society (Yang and Li, 2000). The new Trade Union Law shall go down in the annals of New China for the first time as legislation on the role and status of the trade unions in “collective negotiation.” It is an effective mechanism

for the coordination of labor relations, the emancipation and development of productive forces, and a major institutional innovation in the building of a modern enterprise system, modern social welfare regime, social security system and even economic institutions at the time of China’s access to WTO and merger into the global economic tide.

Second, if we say the corporatist welfare regime and social security system with different features and degrees of maturity may be considered an insurmountable stage of human history, then the promulgation of the new Trade Union Law should be deemed a new start in entering this historical stage, the first foundation pile driven into the ground for the building of a modern welfare regime and social security system. A modern social security system requires an employees’ organization practicing corporatism in order to have the status of a body corporate and a lawful monopoly in nature (of an industry or a department) whereas in a system of free trade unions, a number of mutually independent or competing trade union organizations may exist within one enterprise or trade and it is impossible to recognize the legal status of the representativeness of any of them (as is like the situation in Russia) and in that case there lacks the prerequisite for the practice of tripartite cooperation. The new Trade Union Law, for the first time in history, stipulates: “The All-China Federation of Trade Unions, local trade union federations and industrial trade unions have the status of a legal person. Local trade unions at the grassroots level which are qualified by the general rules of legislation to have the status of legal persons should be granted the status of a legal person (Article 14)”, and “the All-China Federation of Trade Unions and the trade union organizations represent the interests of the workers” (Article 2). The above provisions of the new Trade Union Law in fact have established a fine prerequisite for the implementation of a modern social welfare system while its provisions on the appointment and dismissal of trade union chairpersons, trade union

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<sup>9</sup> Quoted from the Original of the New Trade Union Law printed in *Journal of Shenzhen Special Economic Zone*, p. 4, Oct. 29, 2001. Other quotations below are from the same source.

fees, the main tasks of trade unions and penalties attending violations of the new Trade Union Law have legally ensured the status and function of trade unions.

Third, the promulgation of the new Trade Union Law actually lays a legal foundation for the structure of a “micro-corporatist” social security system. In some academic writings, the corporatist regime is classified into micro-, meso- and macro-corporatism (Crouch and Dore, 1990). The provisions of the new Trade Union Law on “the signing of collective contracts” (i.e. collective negotiation and settlement through consultation) are limited within enterprises and the contents of negotiation mainly covers “wages, labor safety and health and social insurance” (Article 30), and more specifically, covers “convening discussions regarding wages, welfare, labor safety and health, social insurance and other matters of vital importance to the personal interests of workers and the discussions should be attended by representatives of trade unions” (Article 38). Obviously, no one can deny that, objectively speaking, the rights granted to trade unions (in the three aspects) by the new Trade Union Law belong to micro-corporatist welfare. It has ushered our country’s social security system over the threshold of the framework of modern welfare regime. The diversity of the modern welfare regime and social security system will develop continuously in the course of practice, some concepts discarded and others added. Time and practice will provide the answer to such questions as what degree corporatism should reach, in what scope the tripartite partnership should be carried out and which forms of corporatism best fit the Chinese reality. What is important is that the first step has been taken. China will blaze a new path in creating a social security system and social welfare system that complies with the reality of this country and has the features of China’s socialist market economy.

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